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Message Text

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14
ACTION EA-09

INFO OCT-01 ISO-00 CIAE-00 PM-04 H-02 INR-07 L-03 NSAE-00

NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06 OMB-01 TRSE-00

EB-07 COME-00 JUSE-00 /064 W
---------- 001108
P 030649Z JUL 76
FM AMEMBASSY MANILA
TO SECSTATE WASHDC PRIORITY 6999
INFO SECDEF WASHDC
JCS WASHDC
CINCPAC
CINCPACFLT
CINCPACAF
CINCPACREPHIL SUBIC
CG 13TH AF CLARK

C O N F I D E N T I A L MANILA 9673

CINCPAC ALSO FOR POLAD

FROM USDEL 67

E.O. 11652: GDS
TAGS: MARR, RP
SUBJECT: PHILIPPINE BASE NEGOTIATIONS: TAXATION, SALES &
SERVICE

REF: (A) STATE 163986 DTG 012011Z JUL 76
(B) BAGUIO 0057 DTG 252120Z JUN 76

1. SUMMARY: USDEL FINDS REFTEL A UNRESPONSIVE TO THE
PROBLEMS THAT WERE DISCUSSED IN THE TAXATION WORKING GROUP
AND REPORTED IN REFTEL B, AND REQUESTS RECONSIDERATION.
END SUMMARY.

2. GOP REPS IN WORKING GROUP TIED TAX EXEMPTIONS FOR BX
AND INDIVIDUALS TO SOME WORDING TO REFLECT CONTROLS ON
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BLACKMARKETING. WHILE USDEL RECOGNIZES THESE NEGOTIATIONS

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ARE STILL IN PRELIMINARY STAGES, IT IS FELT THAT IN ORDER
TO ADVANCE THE DIALOGUE SOME ADDITIONAL WORDING NEEDS TO
BE TABLED NOW. PROPOSED PARA 6C OF ARTICLE XIX ONLY STATES
IN GENERAL TERMS THE RESTRICTIONS ON PURCHASES WHICH HIS-
TORICALLY HAVE BEEN UNILATERALLY APPLIED BY THE US AND WHICH
WE HAVE NO INTENTION OF ELIMINATING BECAUSE THEY WILL CONTINUE
TO BE IN USG INTEREST. WE CONTINUE TO BELIEVE THAT ATTEMPTING
TO MEET PHIL CONCERNS BY OFFERING TO FORMALIZE PREVIOUSLY
SELF-IMPOSED RESTRICTIONS IS AN APPROPRIATE STEP TO
TAKE AT THIS STAGE OF THE TALKS. WE HAVE NOW BEEN INSTRUCTED,
HOWEVER, THAT WE CANNOT TABLE THIS PARA EXCEPT AS A FALL BACK
POSITION IN RETURN FOR PHIL CONCESSIONS. THE OTHER APPROVED
CHANGES TO ARTICLE XIX, APPROVED REF A DO NOT ADVANCE THE
NEGOTIATION ON THIS ARTICLE. THE LANGUAGE APPROVED REF A
MERELY DIVIDED THE ALREADY TABLED PARA 1 INTO TWO SUBPARA-
GRAPHS WITHOUT ANY SUBSTANTIVE CHANGES.

3. RE ARTICLE X, WASHINGTON COMMENTS ON 6 YEARS LIMITATION FOR
CIVILIAN PERSONNEL ARE APPRECIATED; HOWEVER, THIS ISSUE IS OF
CONSIDERABLE IMPORTANCE TO GOP AND WE WOULD WELCOME
WASHINGTON PROPOSAL FOR MEETING THIS CONCERN WHICH WE
BELIEVE IS OF CONSIDERABLY LESS SIGNIFICANCE TO USG THAN
OTHER TAX ISSUES ON THE TABLE. LONG TERM US CIVILIAN
EMPLOYEES HAVE A SPECIAL HISTORY IN THE PHILIPPINES (IE.,
BARTON ET AL., INCOME TAX CASES) AND WE HAD HOPED TO BE
ABLE TO RESOLVE THESE LONGSTANDING CONCERNS AND PROBLEMS
WITH APPROPRIATE WORDING THAT WOULD NOT CONFLICT WITH US
EMPLOYMENT POLICIES OR LONG TERM INTERESTS. PERHAPS
GRANDFATHER CLAUSE AND EXTRAORDINARY EXCEPTION CLAUSE
WOULD BE APPROPRIATE ADDITION TO OUR PROPOSAL MADE IN PARA
4, REFTEL B.

4. PHIL CONCERN RELATING TO OUTSIDE INCOME OF SOME US
PERSONNEL HAS SUBSTANTIAL BASIS IN FACT, SINCE SOME US
BASE PERSONNEL DEAL IN LOCAL STOCKS, BUSINESS ENTERPRISES
AND PROPERTY. THERE IS NO BASIS FOR CLAIMING EXEMPTION
FROM PHIL INCOME TAX FOR SUCH INCOME. GOP DEMAND IS FOR ALL
US PERSONNEL TO FILE A REGULAR INCOME TAX RETURN. WE
BELIEVE USDEL PROPOSAL TO MEET THIS PROBLEM BY USE OF A
SIMPLE DOCUMENT STATING WHETHER THE SPONSOR OR HIS DEPENDENTS
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HAD INCOME SUBJECT TO PHIL TAXES IS AN APPROPRIATE ACCOMMODATION
IN THE INTEREST OF BOTH USG AND GOP.

5. IN SUMMARY, WE WILL FIND IT INCREASINGLY DIFFICULT TO
NEGOTIATE ON THE BASIS OF REITERATIONS OF POSITIONS. WE NEED
TO KNOW THE REASONS FOR DECLINING TO ACCEPT SPECIFIC PROPOSALS.
WE NEED TO HAVE INSTRUCTIONS WHICH WILL KEEP THE NEGOTIATIONS
MOVING FORWARD WITHOUT CONCEDING ON IMPORTANT ISSUES. ACCORDINGLY,

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WASHINGTON RECONSIDERATIN OF REF B, IN LIGHT OF THE ABOVE COMMENTS,
IS REQUESTED.
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NNN

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